

**REPORT OF THE AUDIT OF THE  
SHELBY COUNTY  
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period  
April 3, 2007 Through April 7, 2008**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**SHELBY COUNTY**  
**SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period**  
**April 3, 2007 Through April 7, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for Shelby County Sheriff for the period April 3, 2007 through April 7, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$28,766,948 for the districts for 2007 taxes, retaining commissions of \$704,878 to operate the Sheriff's office. The Sheriff distributed taxes of \$28,011,509 to the districts for 2007 taxes. A refund of \$14 is due to the Sheriff from the County.

**Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Rob Rothenburger, Shelby County Judge/Executive

Honorable Mike Armstrong, Shelby County Sheriff

Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the Shelby County Sheriff's Settlement - 2007 Taxes for the period April 3, 2007 through April 7, 2008. This tax settlement is the responsibility of the Shelby County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Shelby County Sheriff's taxes charged, credited, and paid for the period April 3, 2007 through April 7, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Rob Rothenburger, Shelby County Judge/Executive

Honorable Mike Armstrong, Shelby County Sheriff

Members of the Shelby County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

August 1, 2008



SHELBY COUNTY  
MIKE ARMSTRONG, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period April 3, 2007 Through April 7, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,698,733	\$ 4,978,761	\$ 15,628,115	\$ 3,042,208
Tangible Personal Property	198,247	334,241	1,129,301	1,009,350
Fire Protection	290			
Increases Through Exonerations	1,830	3,537	10,586	1,979
Franchise Taxes	142,732	210,952	802,183	
Additional Billings	8,010	13,984	45,865	30,421
Change of District		30		
Penalties	10,496	19,199	60,547	12,404
Adjusted to Sheriff's Receipt	<u>(925)</u>	<u>(810)</u>	<u>(4,364)</u>	<u>(849)</u>
Gross Chargeable to Sheriff	<u>3,059,413</u>	<u>5,559,894</u>	<u>17,672,233</u>	<u>4,095,513</u>
<u>Credits</u>				
Exonerations	13,706	25,250	78,253	16,887
Discounts	46,652	85,846	269,855	67,289
Delinquents:				
Real Estate	53,524	92,010	309,954	60,337
Tangible Personal Property	2,946	4,522	16,862	9,545
Franchise Taxes	<u>57,329</u>	<u>80,643</u>	<u>328,695</u>	
Total Credits	<u>174,157</u>	<u>288,271</u>	<u>1,003,619</u>	<u>154,058</u>
Taxes Collected	2,885,256	5,271,623	16,668,614	3,941,455
Less: Commissions *	<u>122,911</u>	<u>164,139</u>	<u>250,029</u>	<u>167,799</u>
Taxes Due	2,762,345	5,107,484	16,418,585	3,773,656
Taxes Paid	2,757,171	5,098,451	16,388,638	3,767,249
Refunds (Current and Prior Year)	<u>5,188</u>	<u>9,033</u>	<u>29,947</u>	<u>6,407</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ (14)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* See Next Page

The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY  
MIKE ARMSTRONG, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES  
For The Period April 3, 2007 Through April 7, 2008  
(Continued)

\* Commissions:

10% on	\$ 10,000
4.25% on	\$ 10,245,088
1.5% on	\$ 16,668,615
1% on	\$ 1,843,245

SHELBY COUNTY  
NOTES TO FINANCIAL STATEMENT

April 7, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SHELBY COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 7, 2008  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 7, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2007 through April 7, 2008.

Note 4. Interest Income

The Shelby County Sheriff earned \$91,296 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of August 1, 2008, the Sheriff owed \$4,166 in interest to the school district.

Note 5. Sheriff's 10% Add-On Fee

The Shelby County Sheriff collected \$77,603 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Fees

The Shelby County Sheriff collected \$3,215 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

- 2004 Tax Year Account Balance \$4,815
- 2005 Tax Year Account Balance \$ 489
- 2006 Tax Year Account Balance \$3,118

According to KRS 393.090, property is assumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer pursuant to KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To Honorable Rob Rothenburger, Shelby County Judge/Executive  
Honorable Mike Armstrong, Shelby County Sheriff  
Members of the Shelby County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Shelby County Sheriff's Settlement - 2007 Taxes for the period April 3, 2007 through April 7, 2008, and have issued our report thereon dated August 1, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shelby County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Shelby County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Shelby County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Shelby County Sheriff's Settlement - 2007 Taxes for the period April 3, 2007 through April 7, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Shelby County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

August 1, 2008



COMMENT AND RECOMMENDATION



SHELBY COUNTY  
MIKE ARMSTRONG, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 3, 2007 Through April 7, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit, we noted the Sheriff's internal control structure lacks an adequate segregation of duties. The bookkeeper prepares the daily bank deposit and checkout sheet and then posts items to the receipts ledger. The bookkeeper prepares the bank reconciliations that are agreed to the receipts and disbursements ledgers. The bookkeeper also prepares checks for all disbursements and posts them to the disbursements ledger. The Sheriff signs all checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. We recommend the Sheriff implement procedures to strengthen internal controls over receipts and disbursements such as:

- The Sheriff or someone other than the bookkeeper should make the daily deposit. This person should not keep records, receive cash or reconcile the bank account. The person making the deposit should compare the daily deposit to the daily tax reports and initial the daily tax reports. If the deposit is more than the daily tax report, the amount of the overpayment should be written on the daily tax report.
- Daily receipts should be reconciled to daily checkout sheets by a person who has no access to accounting records and does not make deposits.
- Bank reconciliation prepared by an individual who has no access to accounting records, deposits, or checks. The individual should compare amounts to the receipts and disbursements ledgers.

*Sheriff's Response:* None.

